



Internal Audit Report

Fire Extinguisher Contract
Johnson Controls, Inc.

January 2001



Audit Team Members

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January 26, 2001

Janice K. Brewer, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Andrew Kunasek, Supervisor, District III
Mary Rose Wilcox, Supervisor, District V

We have completed our limited-scope review of the County's Fire Extinguisher Services Contract (#97158) with Johnson Controls, Inc. This audit was conducted in accordance with the Board-approved audit plan.

The highlights of this report are:

- The contractor's performance deteriorated during the last year. As a result, the County has initiated a formal bid process to procure a new contract having stronger controls.
- The Facilities Management Department closely monitored the contractor's performance and compliance with contract requirements. The department adequately examined contractor invoices to ensure that charges did not exceed authorized rates and amounts.
- The original authorized contract expenditure limit was not exceeded. This determination was cumbersome because the County has not established a standard procedure for calculating total expenditures made pursuant to specific contracts.

Attached is our report package and departmental responses. We have reviewed this information with management from the Facilities Management Department, Materials Management Department, and Department of Finance. We appreciate their excellent cooperation. If you have questions, or wish to discuss items presented in this report, please contact George Miller at 506-1586.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Table of Contents

Executive Summary	1
Introduction	2
Detailed Information	3
Department Response	8

Executive Summary

Contractor Performance (Page 3)

Records maintained by the Facilities Management Department (FMD), the primary user and monitor of the County's fire extinguisher contract, show that the contractor's performance deteriorated during the last year. As a result, the County has initiated a formal bid process to procure a new contract; one containing significant revisions.

Invoice Review and Contract Monitoring (Page 4)

FMD closely monitors the fire extinguisher service contractor's performance and compliance with contract requirements. The department has also developed strong controls over its review process and adequately examines contractor invoices to ensure that charges do not exceed the authorized rates and amounts.

Contract Expenditures (Page 6)

Reported expenditures for the fire extinguisher contract show that the original authorized limit of \$799,000 has not been exceeded. The two sets of data that we examined, both generated by the County's financial reporting system, vary by \$14,398 (5%). If possible, the Department of Finance (DOF) and the Materials Management Department should implement controls necessary to ensure that reported contract expenditure data are complete, accurate, and consistent.

Introduction

Background

Maricopa County contracted with Johnson Controls, Inc. in November 1997 to service, maintain, and test fire extinguishers, sprinkler systems, and main drain valves in County owned buildings. These services are required to meet National Fire Protection Association (NFPA) guidelines.

The original three-year contract (# 97158) was approved by the Board of Supervisors (Board) for \$700,000. The Board authorized a \$99,000 expenditure increase in June 2000.

Scope and Methodology

Our audit objectives were to determine:

- To what extent that the contractor has fulfilled its obligations to provide fire extinguisher maintenance and repair services for the County
- If the contractor's billing invoices are adequately documented, comply with contract requirements, and do not exceed the authorized rates/amounts
- If the contract authorized expenditure limit has been exceeded and, if so, identify the cause and any control weaknesses.
- If FMD and/or other County departments adequately monitor the contractor's performance and compliance with contract terms and conditions.

This audit was performed in accordance with Government Auditing Standards.

Issue 1 Contractor Performance

Summary

Records maintained by the Facilities Management Department (FMD), the primary user and monitor of the County's fire extinguisher contract, show that the contractor's performance deteriorated during the last year. As a result, the County has initiated a formal bid process to procure a new contract; one containing significant revisions.

Contract Status

The County's fire extinguisher contract with Johnson Controls, Inc. expired November 30, 2000. The contract contained several performance, pricing, and compliance requirements. Records show that FMD closely monitored the contractor's adherence to these requirements and found, during the last year, that services were not adequately completed and some billings were not accurate. The details are discussed in Issue #2.

Due to the problems experienced with the original contractor, the County will replace the contract with two new contracts; one for servicing wet fire systems (sprinklers and water main drain) and another for dry systems (extinguishers). The new contracts may be awarded to separate vendors.

Enhanced Controls

The new contracts have been revised to include the following improved controls:

- Vendor(s) will be required to submit work tickets within one week after completing services, rather than at month end
- Maintenance and repair services are more clearly defined
- Quarterly maintenance work payments will be equally spread over the three months, even if most of the work is completed within the first month.

Recommendation

None, for information purposes only.

Issue 2 Invoice Review and Contract Monitoring

Summary

FMD closely monitors the fire extinguisher service contractor's performance and compliance with contract requirements. The department has also developed strong controls over its review process and adequately examines contractor invoices to ensure that charges do not exceed the authorized rates and amounts.

Applicable Requirements

The County is subject to State Fire Marshall imposed regulations. The Fire Marshall annually performs an audit of the County's fire systems; paying particular attention to those located in detention centers. The Fire Marshall also reviews FMD's maintenance files and spot checks sprinkler systems and extinguishers to make sure that maintenance and testing activities are up to date.

Contract Compliance Process

Before the fire extinguisher services contract (# 97158) was approved, FMD inventoried all County extinguishers and sprinkler equipment. Staff created a spreadsheet containing the building, equipment type, serial number, location, floor, and station of each piece of equipment. This spreadsheet has been continuously updated. FMD also keeps a maintenance record and testing schedule for all of the equipment.

Invoice Review

An FMD Technical Specialist compares the maintenance and testing schedule to the contractor's monthly invoice detail to confirm that all scheduled services were provided. The vendor's service tickets are verified against the Test Report and System Checklist (required by NFPA) attached to each invoice. NOTE: A vendor risks losing its license by submitting fraudulent invoices or tagging equipment as having been inspected when it had not. Even so, an FMD Technical Specialist periodically spot checks equipment service tags to match the inspection dates and invoices.

Billing records show that FMD's Technical Specialist also compares the amount billed to the contract authorized amount, identified by equipment type and service performed. Invoice amounts that do not agree with contract rates are corrected and paid accordingly. The Technical Specialist initials invoices for the approved payment amount and then sends the billings to the department's Contract Specialist for final review.

We also found that FMD reviews and approves emergency non-scheduled work (caused by vandalism, etc.), as well as the charges for these services, before the contractor can perform the work. These services are tracked by an FMD

Technical Specialist through the department's Trouble Call System. FMD has also developed strong controls relating to the payment of non-scheduled repairs and service work.

Recommendation

None, for information only.

Issue 3 Contract Expenditures

Summary

Fire extinguisher contract expenditures have not exceeded the authorized limit of \$799,000. During testing we found that the County's financial reporting system currently does not capture some contract expenditures, which causes total expenditures to be understated. Also, the County has not established a standard procedure for calculating total expenditures made pursuant to specific contracts. If possible, the Department of Finance (DOF) and the Materials Management Department should implement controls necessary to ensure that reported contract expenditure data are complete and accurate.

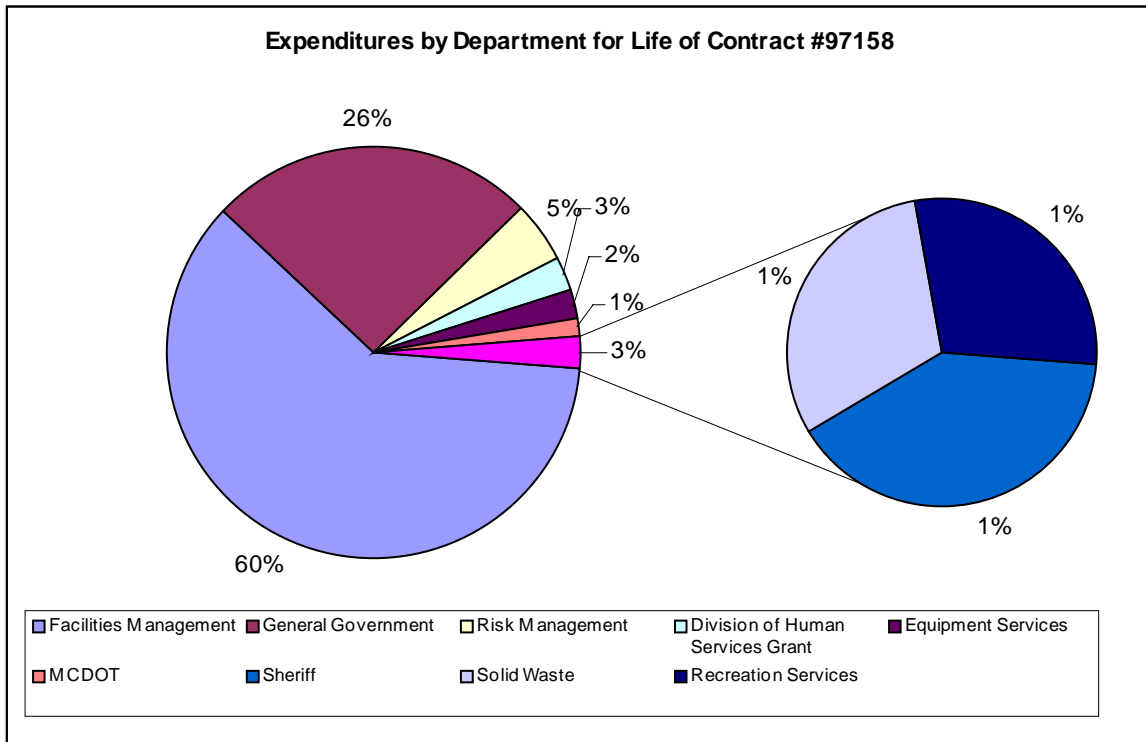
Contract Expenditures

Fire Extinguisher Services Contract #97158 was approved by the Board of Supervisors with an expenditure limit of \$700,000. The amount was later increased, with Board approval, to \$799,000. To determine actual County expenditures, made pursuant to this contract, we obtained downloads from the County's financial reporting system. A standard contract expenditure report or calculation methodology has not been developed. The data shows that the County has spent \$277,634 for fire extinguisher testing, maintenance, and repair services. This amount does not include approximately \$2,000 of contract expenditures that were made using County Procurement Cards.

The following table shows individual department expenditures over the life of the contract. FMD, the primary user of the contract, oversees both its own and General Government fire extinguisher (major maintenance) services. Combined, these two areas account for 86 percent of the expenditures.

Department	Expenditures
Facilities Management	\$ 168,343
General Government	71,225
Risk Management	13,605
Human Services	7,280
Equipment Services	6,084
Transportation	3,849
Solid Waste	2,243
Sheriff	2,888
Recreational Services	2,117
Total	\$ 277,634

The chart below graphically depicts the information presented in the table on the previous page.



Potential Risks

If contract expenditures are not fully reported, the County is exposed to the following potential risks:

- Vendors may bid at higher rates for future contracts because the County's estimated expenditure level is understated
- Some vendors may not submit contract bids, thinking that the amount of business may be too small, thereby reducing competition and increasing County costs.

Recommendation

If possible, DOF and the Materials Management Department should:

- A. Develop and implement controls necessary to ensure that contract expenditures, generated by the County's financial reporting system, are accurate and complete.
- B. Establish a methodology that all County departments should follow for determining how much has been spent pursuant to a specific contract.

DEPARTMENT RESPONSE